EXECUTIVE MAYOR'S OFFICE
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KING SABATA DALINDYEBO MUNICIPALITY

KING SABATA DALINDYEBO

LOCAL MUNICIPALITY

VIREMENT POLICY 2018-2019

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1. INTRODUCTION

1.1 Webster's New Millennium™ Dictionary of English defines "Virement" as "a regulated transfer or re-allocation of money from one account to another, especially public funds."

1.2 A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

1.3 Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

2. PURPOSE

2.1 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.

2.2 Section 81(1)(d) of the MFMA states inter alia that "The chief financial officer of a municipality-…must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;…"

2.3 It is the responsibility of each Executive Director of each Directorate to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

2.4 Section 78(1)(b) of the MFMA states inter alia that "Each senior manager of a municipality and each official of a municipality exercising financial

management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure-…(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;…"

2.5 This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets.

2.6 In addition it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the City's system of delegations.

3. DEFINITIONS

3.1 Accounting Officer (MFMA)

"- (a) in relation to a municipality, means the municipal official referred to in section 60; or…"

3.2 Approved Budget (MFMA)

" - means an annual budget-

(a) approved by a municipal council; or

(b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"

3.3 Chief Financial Officer (MFMA)

"a person designated in terms of section 80(2)(a)"

3.4 Cost Centre

3.4.1 Cost centre is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

3.5 Cost element

3.5.1 Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organisation. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

3.6 Executive Director

3.6.1 Section 56 of the Systems Act states inter alia that: "Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager…"

3.7 Financial year

3.7.1 The 12 month period between 1 July and 30 June.

3.8 Vote (MFMA) Function according to mSCOA

3.8.1 "(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned."

3.8.2 In the case of the City of Cape Town the definition of Vote is set at directorate level, with the exception being tariff-funded services as a result of their closed account nature e.g. Electricity, Water and Solid Waste.

3.9 Virement

3.9.1 The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a function during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption or as a result of changes to mSCOA or mSCOA implementation.

4. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

4.1 The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

4.1.1 Section 15 – Appropriation of funds for expenditure

"A municipality may, except where otherwise provided in this Act, incur expenditure only-

(a) in terms of an approved budget; and

(b) within the limits of the amounts appropriated for the different functions in an approved budget."

5. VIREMENT REQUIREMENTS

5.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Directorate during a financial year.

5.2 In order for a "function" (Directorate) to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved "giving" cost element or capital project allocations on the respective budgets.

5.3 Sufficient, (non-committed) budgetary provision should be available within the "giving" function's cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

5.4 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

5.5 In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

5.6 Virements are not permissible across, or between, functions.

5.7 Virements between Trading- and Rate-funded functions are not allowed, due to the differing impacts on respective tariff- or Rates-borne services' budgets, unless adopted via adjustment budgets (per MFMA Section 28).

5.8 Virements occurred as a result of changes to mSCOA or mSCOA implementation.

6. OPERATING BUDGET VIREMENTS

6.1 Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

6.2 Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.

6.3 Virements related to changes in mSCOA or mSCOA implementation are permitted.

6.4 No virements are allowed from any repairs and maintainace projects to any other expenditure projects.

7. CAPITAL BUDGET VIREMENTS

7.1 Only virements which relate to projects approved as part of annual or adjustments budgets, will be permitted.

7.2 No virements of which the affect will be to add "new" projects onto the Capital Budget, will be allowed.

7.3 Virements may not cause an increase to individual projects' total project cost.

7.4 Virements must be between projects of similar funding sources for example if it was funded by property rates it cannot be transferred to equitable share. .

7.5 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).

7.6 Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

7.7 Secondary Capital Cost Elements:

7.7.1 Virements are permissible only within the same cost elements of different projects.

7.7.2 The service requestor and service provider must endorse such virements.

7.7.3 Proposed secondary capital expenditure virements must be approved by the Director: Budgets.

7.8 Ward Allocations Projects:

7.8.1 Only virements between existing projects approved by Council, within the same sub-council, and within the same directorate will be permitted.

7.8.2 Virements will only be considered if approved by the relevant sub-council (sub-council resolution) and supported by the project managers and finance managers of the projects involved (annexure D).

7.8.3 Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

8. PROCESS AND ACCOUNTABILITY

8.1 Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the directorate's strategic objectives manifests with the head of the relevant directorate.

8.2 Completed virement documentation is to be effected by the Director: Budgets.

8.3 Virements approved and processed will be reported for information to the Executive Mayor on a quarterly basis.

Z.H. NGOVELA
ACTING MUNICIPAL MANAGER

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